

Employer Participation in the Texas Workers' Compensation System: 2004 Estimates

Texas Department of Insurance
Workers' Compensation Research Group
August 2004

Brief History of Nonsubscription in Texas

- Private sector employers have been allowed the option of whether to purchase workers' compensation (WC) insurance since 1913.
- Texas is currently the only state that allows any private-sector employer the option of not purchasing WC insurance or become "nonsubscribers" to the state WC system.
- Several states' laws have numerical exceptions that allow small private sector employers to be "nonsubscribers."
- The first study in Texas to estimate the percentage of employers that are "nonsubscribers" to the Texas WC system took place in 1993 with follow up studies conducted in 1995, 1996, 2001 and now 2004.

Purpose of This Analysis

- To estimate the percentage of Texas employers that participate in the Texas workers' compensation system and the percentage of the Texas workforce they employ.
- To understand the reasons why Texas employers choose to purchase or not purchase workers' compensation coverage.
- To generally understand the types of benefits provided by nonsubscribers to injured employees.

Seven Areas of Focus for This Presentation

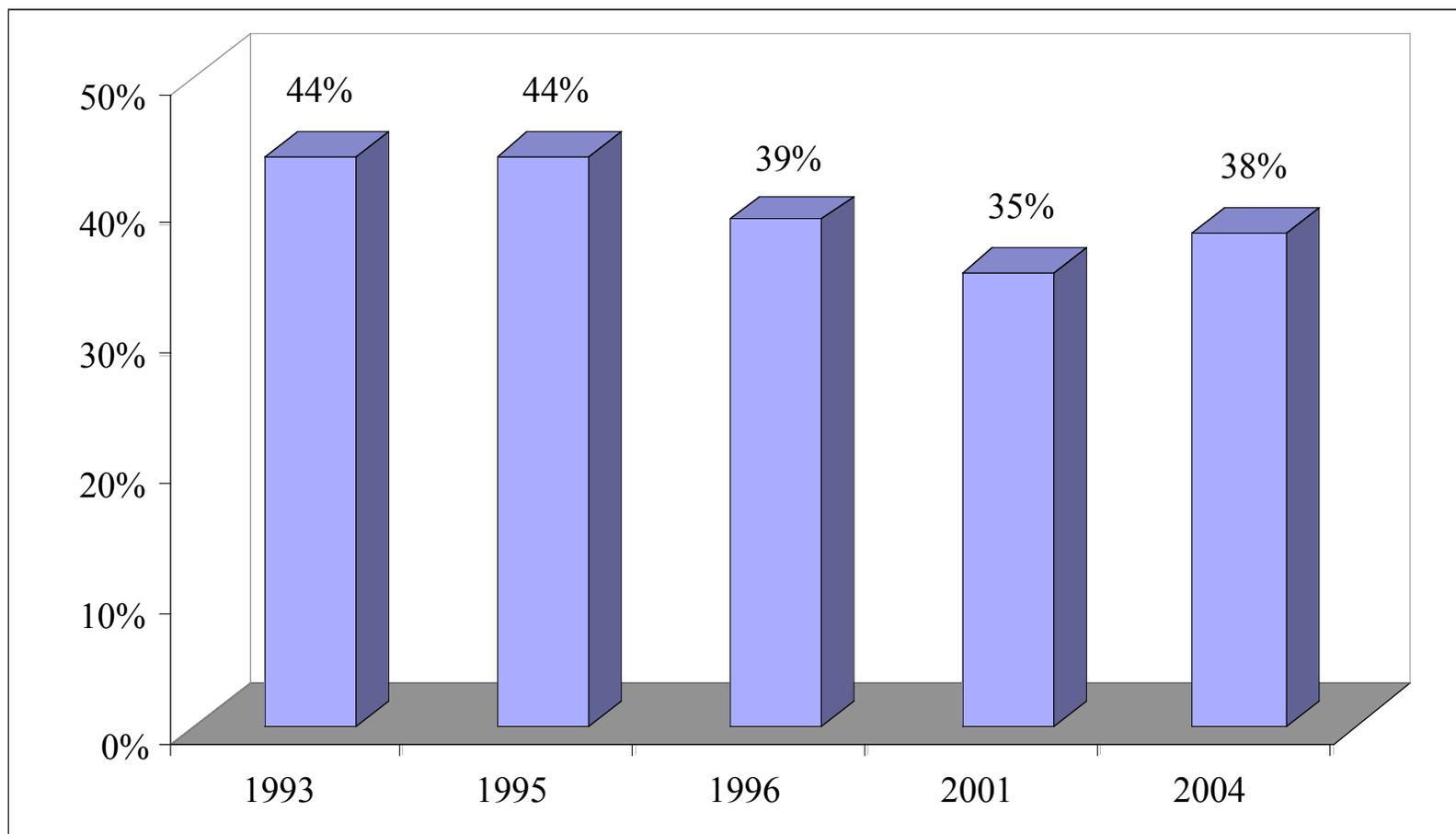
- Overall percentage of Texas employers that do not have workers' compensation coverage (also known as "nonsubscribers");
- Overall percentage of Texas employees that are employed by nonsubscribers;
- Employer nonsubscription rates by industry and employment size;
- Percentage of Texas employers that have always been subscribers and nonsubscribers;
- Primary reasons given by Texas employers for why they either purchase workers' compensation coverage or become nonsubscribers;
- Texas employers' experiences with workers' compensation insurance costs; and
- Basic information regarding the types of benefits provided by nonsubscribers to injured employees.

Data Sources and Methods

- Findings presented here are from a 2004 survey of Texas year-round employers (i.e., employers that had continuous wages reported to the Texas Workforce Commission for four consecutive quarters).
- TDI used a random probability sample stratified by eight industry classifications as determined by the North American Industry Classification System (NAICS) and six employment size classifications.
- To ensure consistency in historical nonsubscription estimates, TDI made slight modifications to the survey instrument previously developed by the Research and Oversight Council on Workers' Compensation (ROC) and contracted with the Public Policy Research Institute (PPRI) at Texas A&M University to administer the survey during June – August 2004.
- PPRI completed 2,884 interviews with year-round private sector Texas employers, resulting in nonsubscription estimates that have a +/- 2.4% margin of error at the 95% confidence interval.

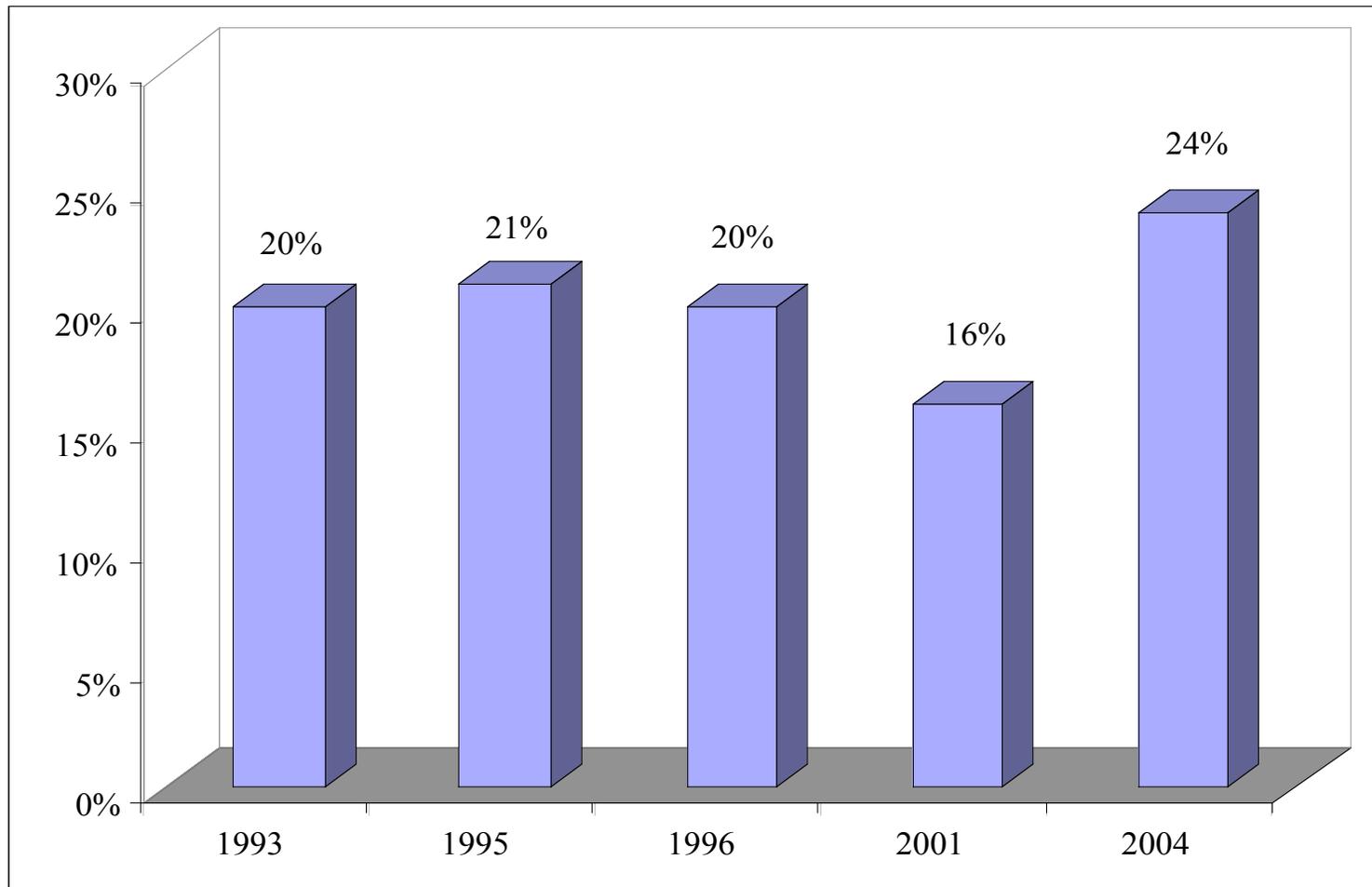
Overall Nonsubscription Estimates

Percentage of Texas Employers That Are Nonsubscribers, 1993-2004



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, 1993 and 1995 estimates from the Texas Workers' Compensation Research Center and the Public Policy Research Institute (PPRI) at Texas A&M University; 1996 and 2001 estimates from the Research and Oversight Council on Workers' Compensation and PPRI; and 2004 estimates from the Texas Department of Insurance Workers' Compensation Research Group and PPRI.

Percentage of Texas Employees That Are Employed by Nonsubscribers, 1993-2004



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, 1993 and 1995 estimates from the Texas Workers' Compensation Research Center and the Public Policy Research Institute (PPRI) at Texas A&M University; 1996 and 2001 estimates from the Research and Oversight Council on Workers' Compensation and PPRI; and 2004 estimates from the Texas Department of Insurance Workers' Compensation Research Group and PPRI.

Percentage of Texas Employers That Are Nonsubscribers by Industry, 2004 Estimates

Industry Type	Nonsubscription Rate
Agriculture/Forestry/Fishing/Hunting	39%
Mining/Utilities/Construction	32%
Manufacturing	42%
Wholesale Trade/ Retail Trade/Transportation	40%
Finance/Real Estate/Professional Services	32%
Health Care/Educational Services	41%
Arts/Entertainment/Accomodation/Food Services	54%
Other Services Except Public Administration	39%

Note: Industry classifications were based on the 2002 North American Industry Classification System (NAICS) developed by the governments of the U.S., Canada and Mexico, which replaced the Standard Industrial Classification (SIC) system previously used in the U.S. As a result of this change in industry classifications, industry nonsubscription rates for 2004 cannot be compared to previous years.

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

Percentage of Texas Employers That Are Nonsubscribers by Employment Size, 2004 Estimates

Employment Size	Nonsubscription Rate
1-4 Employees	46%
5-9 Employees	37%
10-49 Employees	25%
50-99 Employees	20%
100-499 Employees	16%
500 + Employees	20%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

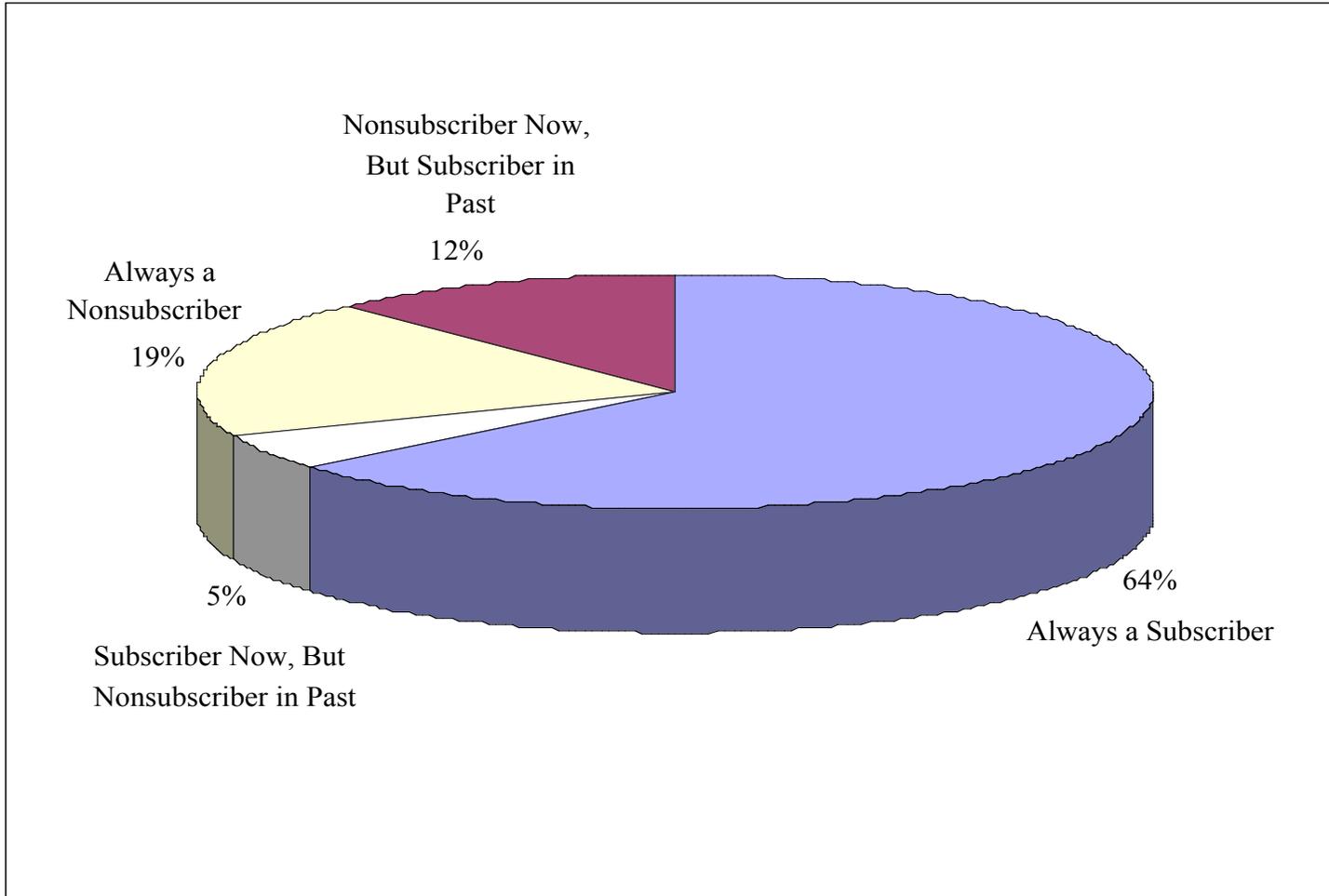
Percentage of Texas Employers That Are Nonsubscribers by Employment Size, 1993-2004

Employment Size	1993*	1995	1996	2001	2004
1-4 Employees	N/A	55%	44%	47%	46%
5-9 Employees	N/A	37%	39%	29%	37%
10-49 Employees	N/A	28%	28%	19%	25%
50-99 Employees	N/A	24%	23%	16%	20%
100-499 Employees	N/A	20%	17%	13%	16%
500 + Employees	N/A	18%	14%	14%	20%

Note: * Nonsubscription estimates for 1993 were based on different employer size categories than were used in later years so they are not directly comparable.

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, 1993 and 1995 estimates from the Texas Workers' Compensation Research Center and the Public Policy Research Institute (PPRI) at Texas A&M University; 1996 and 2001 estimates from the Research and Oversight Council on Workers' Compensation and PPRI; and 2004 estimates from the Texas Department of Insurance Workers' Compensation Research Group and PPRI.

Subscription History of Surveyed Employers, 2004 Estimates



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

Reasons Why Employers Choose to Purchase or Not Purchase Workers' Compensation Insurance

Top Five Primary Reasons Why Subscribing Employers Said They Purchase Workers' Compensation Coverage

Primary Reasons Given by Surveyed Employers	Percentage of Subscribing Employers Surveyed
Employers were concerned about lawsuits	30.1%
Employer's industry considered high risk and employees require workers' compensation coverage	11.4%
Employer needed workers' compensation coverage in order to obtain government contracts	11.0%
Employer had confidence in the administration of the Texas workers' compensation system	9.2%
Employers were able to self-insure through the Texas Workers' Compensation Commission Certified Self-Insurance Program or able to use deductibles or other premium discounts to reduce workers' compensation insurance costs	8.9%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

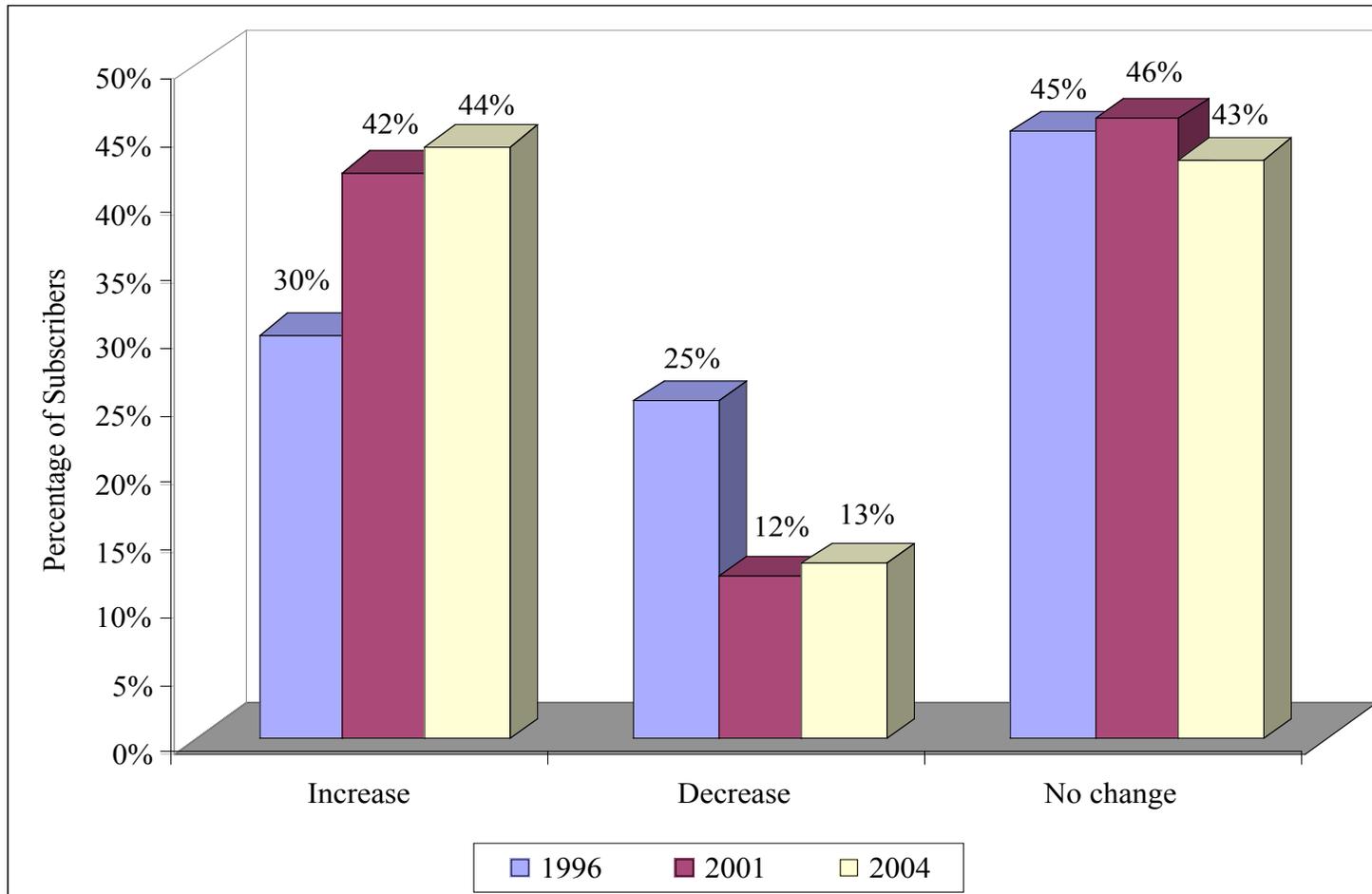
Top Five Primary Reasons Why Nonsubscribing Employers Said They Did Not Purchase Workers' Compensation Coverage

Primary Reasons Given by Surveyed Employers	Percentage of Nonsubscribing Employers Surveyed
Workers' compensation insurance premiums were too high	37.9%
Employer had too few employees	21.1%
Employers not required to have workers' compensation insurance by law	9.8%
Medical costs in the workers' compensation system were too high	4.9%
Employer had few on-the-job injuries	4.7%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

Texas Employers' Experiences with Workers' Compensation Insurance Costs

Percentage of Subscribing Employers That Have Experienced a Change in Their Workers' Compensation Insurance Premium Compared to Previous Policy Year



Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, 1996 and 2001 estimates from the Research and Oversight Council on Workers' Compensation and the Public Policy Research Institute (PPRI) at Texas A&M University; and 2004 estimates from the Texas Department of Insurance Workers' Compensation Research Group and PPRI.

Average Premium Increase for Employers That Reported a Recent Increase in Their Workers' Compensation Premiums in 2004

Size of Recent WC Premium Increase	Percentage of Subscribing Employers Surveyed in 2004
Less than 10 percent	50%
11-15 percent	14%
16-20 percent	12%
21-30 percent	8%
31-40 percent	4%
41-50 percent	5%
More than 50 percent	7%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

Average Premium Decrease for Employers That Reported a Recent Decrease in Their Workers' Compensation Premiums in 2004

Size of Recent WC Premium Decrease	Percentage of Subscribing Employers Surveyed in 2004
Less than 10 percent	60%
11-15 percent	16%
16-20 percent	5%
21-30 percent	8%
31-40 percent	5%
41-50 percent	6%
More than 50 percent	Less than 1%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

Percentage Increase in Premiums Subscribing Employers Say Would Cause Them to Seriously Consider Dropping Workers' Compensation Coverage

Size of Potential WC Premium Increase	Percentage of Subscribing Employers Surveyed in 2004
Less than 10 percent	20%
11-15 percent	16%
16-20 percent	17%
21-30 percent	13%
31-40 percent	5%
41-50 percent	2%
More than 50 percent	3%
Would never consider dropping WC insurance	24%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

Percentage Decline in Premiums Nonsubscribing Employers Say is Required To Induce Them to Purchase Workers' Compensation Insurance

Size of Potential WC Premium Decrease	Percentage of Nonsubscribing Employers Surveyed in 2004
Less than 10 percent	8%
11-15 percent	5%
16-20 percent	5%
21-30 percent	11%
31-40 percent	6%
41-50 percent	7%
More than 50 percent	21%
Would never consider purchasing WC insurance	37%

Source: *Survey of Employer Participation in the Texas Workers' Compensation System*, Public Policy Research Institute at Texas A&M University and the Texas Department of Insurance Workers' Compensation Research Group.

Basic Information Regarding Benefits Provided by Nonsubscribers

General Findings

- Approximately 58 percent of nonsubscribing employers surveyed in 2004 reported that they pay medical and/or wage replacement benefits to injured employees, slightly up from 56 percent in 2001.

Medical Benefits

- Of those nonsubscribing employers that said they pay benefits in 2004, 84 percent pay medical benefits.
- Almost two-thirds (64 percent) of nonsubscribing employers said that they pay medical benefits for as long as medically necessary.
- Of those remaining nonsubscribing employers that cap medical benefits, 58 percent cap these benefits based on the amount of money spent on the medical treatment received by the injured employee, 32 percent cap these benefits based on the length of medical treatment provided to injured employees, and 9 percent use some other method.

Wage Replacement Benefits

- Approximately 69 percent of nonsubscribing employers in 2004 said they pay wage-replacement benefits to injured employees.
- More than half (55 percent) of nonsubscribing employers said that they pay wage replacement benefits for the entire duration of an injured employee's lost time.
- Of those remaining nonsubscribing employers that cap wage replacement benefits, 53 percent cap these benefits based on a certain amount of time, specified in the benefit plan, 30 percent cap these benefits based on the amount of money spent on the benefits paid to the injured employee, and 17 percent use some other method.

Summary

- Overall, the percentage of Texas employers that do not have workers' compensation (WC) insurance has increased since 2001, but has not yet reached the levels previously seen in 1993 and 1995.
- However, the percentage of Texas employees employed by nonsubscribing employers has increased to the highest levels seen since these figures have been tracked by the state. This increase appears to be the result of a higher percentage of larger employers deciding not to purchase WC insurance than found in previous years.
- Concern over lawsuits, concerns regarding the potential high risk of their injuries, the need to have WC insurance for government contracts, confidence in the administration of the WC system, and the ability to use self-insure or use other premium reduction tools dominated the primary reasons why subscribing employers purchased WC insurance.

Summary, *continued*

- However, the primary reasons why nonsubscribing employers decided not to purchase WC insurance included high WC premiums, the perception that employers' have too few employees or few on-the-job injuries to warrant WC insurance, the understanding that WC insurance is not required by law, and the concern over high medical costs in the Texas WC system.
- Compared with 2001, a slightly higher percentage of subscribing employers experienced some sort of change in their WC premium since the last policy renewal.
- For those employers that experienced an increase in premium, half (50 percent) said the increase was less than 10 percent, while 60 percent of employers who experienced a decrease in premium said the decrease was less than 10 percent.
- More than half (53 percent) of current subscribers indicated that they would consider dropping WC coverage if premiums increased by 20 percent, while 18 percent of nonsubscribers indicated that they would consider purchasing WC insurance if premiums decreased by 20 percent.

Summary, *continued*

- However, it's important to note that 37 percent of nonsubscribers said that they would not consider purchasing WC insurance regardless of WC premium reductions.
- While 38 percent of Texas employers do not have WC insurance, more than half of these nonsubscribing employers (58 percent) indicated that they pay medical and/or wage replacement benefits to injured employees.
- TDI plans to issue a full report detailing the complete findings from this study in early October.